



Entrepreneurship in Oilfield Manufacturing

February 03, 2017



The Journey

From Pete Engineer to Entrepreneur





Key Decision Points

- SPE GCS Scholarship
 - First exposure to oil and gas industry
- Texas A&M University
 - Petroleum Engineering
- Permian Basin
 - Concho Resources, Field Operations, Reservoir Engineering
- Harvard Business School
 - MBA 2013, Entrepreneurship Through Acquisition
- TXE Capital
 - Starting my own Search Fund
- LK Industries
 - Acquiring a niche manufacturer of oilfield testing equipment





The MBA

Starting a New Path





Why an MBA (general)?

- Key reasons PETEs decide to obtain an MBA
 - Diversify your skillset
 - Management Training
 - Explore other career paths
 - Two Approaches
 - Part-time or Exec Ed → Weekend programs, night programs, usually local
 - Pros: Continued technical development, no relocation, lower cost
 - Cons: split focus on MBA/work, little opportunity to explore new career options
 - Full-time → two year programs, on campus learning, geographically diverse
 - Pros: full engagement in learning, opportunity to “restart”, relationships
 - Cons: high cost, pause in technical learning, relocation, “back to school”
 - My Thoughts
 - USE MBA to become manager at E&P Company
 - Aim high...nothing to lose
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Harvard Business School

- Started in the Fall of 2011
 - Two years of work experience
 - Operational experience was extremely valuable in the classroom
 - Areas on Interest
 - Focused on operations and strategy
 - Conducted independent studies with PEMEX
 - Committed to returning the to oil and gas sector
 - Two Unexpected Courses
 - Financial Management of Small Firms
 - Entrepreneurship Through Acquisition
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The Decision

Starting my own search fund





A Search Fund

- What is a Search Fund?
 - Search funds are an alternative investment vehicle and are typically considered the most direct way for someone with limited financial resources to run a company that they partially own.
 - The first known “search funder” was a 1983 Harvard Business School graduate

 - Stage 1 – Raising the Search Fund
 - The search fund entrepreneurs raise what is known as the “search fund.” This is a pool of capital that supports them in their search of a company.
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A Search Fund

- Stage 2 - Searching and Acquiring
 - Searching, identifying and closing on a business is a time-intensive and diligence-rich process. Once a company is identified, the search funders then make a second capital call to their original investors.
- Stage 3 – Operating the Company
 - After an ownership transition, the searcher will assume daily operations. The goal is to create value by successfully growing the business through careful execution of strategy and operational efficiencies.
- Stage 4 – Exiting
 - There's a lot of flexibility on the exit, depending on the investor mix.



TXE Capital

- About
 - Sponsored by Double R Partners
 - Founded in July 2013
 - Strategy
 - Focused on opportunities in the Texas Energy Sector
 - Developed Board of Industry Advisors
 - Personalized the selling process (“Eric” is the buyer)
 - Completed First Acquisition in April 2015
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The Search Process

Finding the Right Company





Kicking Off

- Key Characteristics
 - Annual Sales Greater than \$5M
 - Based in the Greater Houston Area with a focus on energy
 - Low Customer Concentration
 - **Owners Seeking Transition**
 - High Value Business-to-Business Operations

 - Getting Leads
 - Intermediaries
 - Brokers, Investment Bankers, Listing Services, Databases, etc
 - Network
 - Personal networks, accountants, attorneys, HBS/TAMU
 - Cold Call
 - Most Fun of them all!
 - Sometimes you get it wrong...
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Kissing a lot of frogs

- 20 Months of Searching
 - Most effective leads came from brokers
 - Discipline is key
 - Emotions must be managed
 - Results
 - Reviewed 168 deals
 - Over 1000 deals circulated
 - Issued 11 IOIs
 - Issued 3 LOIs
 - Closed 1 deal: LK Industries
 - Found through a broker (Idaho)
 - 86 year old manufacturing company
 - 89 Year old owner
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The Acquisition Process

Becoming the Owner





General Overview

- Once a company is identified...
 - An IOI (Indication of Interest) is submitted (Sept 2014)
 - This sets price expectations and timeline
 - Primary purpose is to have high level agreement on major issues
 - An LOI (Letter of Intent) is issued (Oct 2014)
 - The details purchase price, diligence time line, sets exclusivity period, establishes break up clause, ensures all parties are notified
 - Confirmatory Due Diligence is conducted (Oct 2014 –Jan 2015)
 - The Entrepreneur works directly with the seller to perform diligence in the following areas:
 - Finance, Customers, Products, Legal, Environmental, Operations
 - Often professionals are brought in to assist (CPA, Lawyer, etc)
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General Overview

- Financing the Deal (Nov 2014 – Jan 2015)
 - Outside equity capital
 - The entrepreneur's own capital
 - Debt (Bank/Non Bank)
 - Seller Contributions

 - Marching Toward Closing (April 2015)
 - Settling any diligence issues with sellers
 - Announcing to Employees
 - Structuring the Transition Period
 - Completing a Purchase and Sale Agreement
 - CLOSE! (~120 days)
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The Good, the Bad, and the Ugly

- The Good
 - Motivated seller with realistic price expectations
 - Good history and employees (selling not a surprise)
 - Company fit all of TXE's criteria

 - The Bad
 - Six months to close (owner illness, holidays)
 - Balancing negotiations with son and father

 - The Ugly
 - Environmental Concerns
 - Debt Financing
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Lessons Learned

Hindsight is 20/20





Lessons Learned from Searching

- There is not a prescription for how to find a deal
 - Find out what's important to the seller (it may be different than what's important to the buyer)
 - Trust your gut - what seems minor, can become a deal killer
 - Bank financing takes time especially in a down market
 - Buy side brokers can add value
 - Some things are beyond your control
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Lessons Learned from Operating

- Navigating a Downturn is Hard
 - Cash is king
 - Even good ideas may need to be shelved
 - Challenging to learn a business during a down cycle
 - The Soft Stuff Matters
 - Managing people is a significant part of a CEO's job
 - Businesses reflect their owners...new owner can mean new culture
 - Culture is hard to change quickly
 - Get Used to Being Never Off
 - In small business, the owner wears many hats and is always on
 - 3 am security alarm, customer issues, supplier problems, Greg Ambrosia
 - Find the Magic
 - Every successful small company has figured out a recipe that works. New owners must take the time to learn this (it's not always obvious).
 - Build the Right Team
 - As culture changes, people will too. Establishing the team that can help you carry out the goals of the company is crucial.
 - Getting the right people in is just as important as getting the wrong people out.
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Is This Path For You?





Is This Path For You?

A few considerations...





Deciding if this is a fit for you...

- “Search Fund”
 - A new term for a familiar concept...
 - Moving from operator to owner

 - Small Business Atmosphere
 - Recalibrating the definition of “small business”
 - Pros/Cons of running a micro-cap business
 - Limited red tape...limited resources

 - Risk Tolerance
 - Are you willing to take a bet on yourself?
 - Determining the right time to make a move

 - No Clear Path
 - Lots of different ways to succeed...
 - Lots of different ways to fail....
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Thank you!

Comments/Questions?

